

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

)
) Docket No. R97-1
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MAJOR MAILERS ASSOCIATION'S TRIAL BRIEF

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February 10, 1997

TABLE OF CONTENTS

A.	Instead of Accepting The Postal Service's New Costing Theories, The Commission Should Reaffirm Its Own Established Methodology	1
1.	The Service Has Failed To Carry Its Heavy Burden of Proof To Support A Change In Costing Methodologies	1
2.	The Service's Proposed Methodologies Are Also Objectionable For Policy Reasons	2
(a)	The Service's Methodology Is Designed To Mask The Service's Failure To Relieve First-Class Mail Of An Excessive Share Of The Service's Institutional Costs	2
(b)	The Service's Methodology Would Decrease Objective Cost-Based Ratemaking In Favor Of Subjective Demand Oriented Judgment	3
B.	The Service's Proposed Discounts For First-Class Automation Mail Should Be Increased	3
1.	Compared With the Commission's Methodology, the Service's Techniques Understate the Cost Savings Due To Mailer Worksharing of Automated Mail	3
2.	Even Under the Service's Proposed Methodology, the Service Has Understated the Cost Savings Due To Mailer Worksharing of Automated Mail	5
C.	The Rates For Letter Weighing Between 1.1 Ounce and 2.0 Ounces Should Be Reduced	5
D.	The Commission Should Consider Whether The 32-Cent Stamp Rate Should Be Retained	7

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**MAJOR MAILERS ASSOCIATION'S
TRIAL BRIEF**

Major Mailers Association (MMA) hereby presents its trial brief, based on a record that includes the testimony of MMA witness Richard E. Bentley (MMA-T-1).

**A. Instead of Accepting The Postal Service's New
Costing Theories, The Commission Should
Reaffirm Its Own Established Methodology**

**1. The Service Has Failed To Carry Its Heavy Burden of
Proof To Support A Change In Costing Methodologies**

In numerous Orders, the Commission has recognized that, when the Postal Service proposes a change in established costing methodologies, it has the burden of proof to support the proposed change. See R97-1 Order No. 1197, p. 4 (citing 5 U.S.C. §556(d)); POR R94-1/36, p.2. *Cf. Providence Gas Co. v. Burke*, 419 A.2d 263, 268 (R.I. Sup. Ct. 1980.) ("The party seeking to change such a previously approved [depreciation] rate has the burden of persuasion on this issue"); *Central Maine Power Co. v. PUC*, 416 A.2d 1240, 1247 (Me. Sup. J. Ct. 1980) (Utility proposing "significant changes in rate design" has burden of proof).

On technical grounds alone, the Service's presentation in support of its proposed techniques is inadequate. The Service's testimony and exhibits are prolix, fragmented

and confusing; they are marred by a profusion of errata sheets and supplemental filings. Moreover, the Service's witnesses based many of their conclusions upon nonrecord "library references" that the Service's did not present on the record until finally ordered to do so at the end of the hearings on the Service's case-in-chief. Worse still, many parties pointed out major technical deficiencies in the Service's testimony and exhibits.

Not surprisingly, therefore, the Service's methodology produces unreliable estimates of costs. For example, MMA witness Bentley shows that the Service's methodology grossly underestimates First-Class Automation letters' unit processing and delivery cost savings by at least 20 percent to 24 percent (MMA-T-1, pp.9-10).

The Service's ragged and misguided presentation does not suffice to justify scrapping the Commission's established methodology.

2. The Service's Proposed Methodologies Are Also Objectionable For Policy Reasons

(a) The Service's Methodology Is Designed To Mask The Service's Failure To Relieve First-Class Mail Of An Excessive Share Of The Service's Institutional Costs

The Commission has long complained about the Service's practice of burdening First-Class Mail with an excessive share of institutional costs. The Service makes no attempt to correct this disparity. Instead, its methodology is designed to conceal this disparity by invalidating all the Commission's established yardsticks of overhead burden.

To demonstrate this, Mr. Bentley measures the Service's rate increase here by use of the Commission's established methodology. Using the Commission's methodology, Mr. Bentley shows that the Service's proposal continues First-Class Mail's excessive coverage, markup and unit institutional cost burden (MMA-T-1, pp. 4-5).

**(b) The Service's Methodology Would Decrease
Objective Cost-Based Ratemaking In Favor
Of Subjective Demand Oriented Judgments**

It is no secret why the Postal Service prefers its new proposed costing methodology. Throughout its history, the Service has sought to maximize the portion of its total costs that are classified as "institutional." Because the Service assigns institutional costs according to discretionary "pricing" judgments, the Service invariably uses that discretion to burden First-Class Mail with an excessive share of those costs (MMA-T-1, pp. 7-9).

Resisting this practice, the Commission has struggled to increase the percentage of total costs that are classified as "attributable" and therefore apportioned by objective costing criteria. The Service's proposal is an attempt to turn back the clock and to wipe out the Commission's achievements that partially protect First-Class Mail (*Id.*). That reason alone is enough to turn down the Service's gambit.

**B. The Service's Proposed Discounts For First-
Class Automation Mail Should Be Increased**

**1. Compared With the Commission's Methodology, the
Service's Techniques Understate the Cost Savings
Due To Mailer Worksharing of Automated Mail**

As compared with the Commission's methodology, the Service's proposed new methodology understates the cost savings from mailer worksharing by an average of 21 percent, or from 1.5 cents to 2.6 cents, as shown in Table A (MMA-T-1, pp. 12-13):

**Table A. Comparison of Unit Cost Savings For
First-Class Automation Letters
(Cents)**

<u>First-Class Letters</u>	<u>Unit Cost Savings USPS Method</u>	<u>Unit Cost Savings PRC Method</u>	<u>USPS Unit Cost Cost Savings Underestimate</u>
Automation Basic Presort	5.7	7.2	1.5
Automation 3-Digit Presort	6.5	8.2	1.7
Automation 5-Digit Presort	8.1	10.3	2.2
Carrier Route	8.3	10.9	2.6

Source: Exh. MMA-1E

MMA therefore proposes that the Commission recommend discounts that are at least 0.2 cents higher than those proposed by the Postal Service, as shown in Table B below¹ (MMA-T-1, p. 13):

**Table B. Comparison of First-Class Automation Discounts
(Cents)**

<u>Rate Category</u>	<u>Current Discount</u>	<u>USPS Proposed Discount</u>	<u>MMA Proposed Discount</u>
First Class:			
Basic Automation	5.9	5.5	5.7
3-Digit Automation	6.6	6.5	6.7
5-Digit Automation	8.2	8.1	8.3
Carrier Route	9.0	8.4	8.6

¹ MMA's proposed discounts represent an 81 percent passthrough of cost savings derived under the Commission's methodology. In comparison, in Docket No. MC95-1, the Commission's recommended discounts (which are now in effect) represented an average passthrough of 97 percent (MMA-T-1, pp. 13-14).

In addition to correcting the Service's understatement of cost savings, MMA's proposal takes account of numerous policy reasons for increasing the Service's proposed discounts (MMA-T-1, pp. 14-16). In addition, the Service failed to give worksharing credit for cost savings due to such new measures as reduced move updates, enclosed pre-barcoded reply envelopes, and avoided collection and mail preparation costs (MMA-T-1, pp. 16-18; Response to USPS/MMA-T1-6a).

2. Even Under the Service's Proposed Methodology, the Service Has Understated the Cost Savings Due To Mailer Worksharing of Automated Mail

Even if the Service were justified in treating labor costs as not varying 100 percent with volume, its methodology would still understate worksharings' cost savings. As noted in Part B.1, the Service's methodology fails to include many First-Class Automation cost savings attributes. For example, by giving no credit for the omission of move updates, the Service ignores cost savings of 0.262 cents, according to ABE/EEI/NAPM witness Clifton (See Response to USPS/MMA-T1-6b). Together with another correction, this adjustment would increase the Service's own estimate of First-Class Automated cost savings by almost one cent (*Id.*). In addition, by including pre-barcoded envelopes in their Automated mailings, First-Class bulk mailers have created cost savings so great that they virtually offset the Service's higher remote barcoding costs for handling handwritten single-piece mail (*Id.*).

C. The Rates For Letters Weighing Between 1.1 Ounce and 2.0 Ounces Should Be Reduced

The existing surcharge for First-Class letters weighing between 1.1 and 2.0 ounces is grossly excessive. There is no reason to believe that it costs the Service more to

process a two-ounce First-Class letter than a one-ounce letter.

About this there can be no doubt. Ten years ago, the Commission recognized that “[l]etters up to two ounces for the most part can be processed on the new automation at a cost no higher than a one ounce letter...” (R87-1)p., p. 448). Again, over four years ago, the Commission observed that “information has become available indicating letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces” (R94-1 Op., p. V-9).

Indeed, the Postal Service’s own actions demonstrate its belief that one-ounce and two-ounce letters incur the same processing costs. Thus, the Service has always designed third-class bulk (now Standard Mail A) rates that do not change as weights increase from 0.1 to over 3.0 ounces (MMA-T-1, p. 19). All the Service’s own studies have found that one-ounce and two-ounce letters cost the same (MMA-T-1, p. 20). And the Service’s witnesses in this proceeding implicitly make the same assumption (*Id.*).

Recognizing that the additional-ounce surcharge generates significant revenues, MMA does not advocate that the surcharge be eliminated for letters weighing between 1.1 ounce and 2.0 ounces. In the last rate case, the Commission took a first step in the right direction by refusing to increase the surcharge, ruling that “any increase in the extra ounce rate would cause prices to deviate more than at present from the actual cost pattern” (R94-1 Op., p. V-9). Now, in this proceeding, the Commission should take the next step towards improving the alignment of rates with costs. This is possible without jeopardy to the Service: each one-penny reduction in the surcharge for two-ounce letters reduces postal revenues by only about \$26 million (MMA-T-1, p. 18).

**D. The Commission Should Consider Whether
The 32-Cent Stamp Rate Should Be Retained**

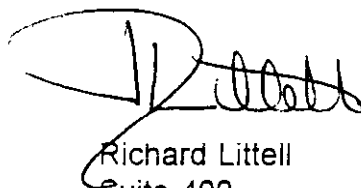
In view of the Service's current prosperity, the Commission needs to scrutinize the Service's proposal to increase the current 32-cent rate for the basic First-Class stamp. First-Class letters, which account for 49 percent of mail volume and only 17 percent of weight, are being asked to contribute 55 percent of total mail revenues (See Figure 1 and MMA-T-1, pp. 4-5A). In contrast, Commercial Standard A mail, which accounts for 34 percent of volume and 39 percent of weight, is being asked to provide only 20 percent of total mail revenues (*id.*). The Service's currently proposed rates will also burden First-Class mailers with unit contributions to institutional costs that are more than twice the contribution made by Commercial Standard A mailers (See Figure 2 and MMA-T-1, p. 7). Indeed, if institutional costs are assigned on an "unbundled" basis, as NNA suggests (NAA-T-1), First-Class Mail's existing share is even more inequitable than these figures indicate.

In previous cases, the Commission has made some reductions in First-Class Mail's burden of institutional costs, but it has also had to defer greater reductions because "of serious concern" about the impact upon non-First-Class mailers. (See e.g. R94-1 Op., p. IV 16.)...The resulting "compromises (*id.*) have left First-Class mail's institutional burden much too great (MMA-T-1, pp. 20-21). Finally, in this proceeding, the Commission has before it a relatively small rate proceeding that does not threaten any type of mail with rate shock (MMA-T-1, pp. 20-21).

This provides the Commission with an unprecedented opportunity to take another

step towards fairer First-Class rates. *If not now, when?* (MMA-T-1, p.21).

Respectfully submitted,



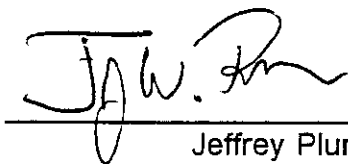
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February 10, 1997

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.



February 10, 1997

Jeffrey Plummer